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SUBJECT: NIGERIA: MISSING LONG-TERM ENERGY PLAN

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[1](#)B. LAGOS 494
[1](#)C. ABUJA 1376

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[1](#)1. (SBU) SUMMARY: Nigeria faces power problems despite abundant oil and gas resources because it does not have a coherent long-term energy plan, according to Dr. Joseph Makoju, Special Adviser to the President on Electric Power. Since 2005, the GON has spent \$13.7 billion on the power sector, however, due to construction delays, vandalism, Niger Delta insecurity, political turmoil and poor planning power production has not increased. END SUMMARY.

[1](#)2. (U) U.S. Department of Energy Assistant Secretary for Policy and International Affairs Karen Harbert on July 17 met with Dr. Joseph Makoju, Special Adviser to the President on Electric Power. Makoju described the recent history of Nigeria's power sector and strategies to address Nigeria's domestic energy crisis. A/S Harbert's discussion is supplemented with details from previous Mission interaction with Makoju.

Power Sector Primer

[1](#)3. (U) Despite rapid population growth and rising demand since the 1970s, the GON invested inconsistently in power infrastructure causing a huge electricity supply deficit. When President Obasanjo took power in 1999, seven gas-fired and hydro power plants, some virtually obsolete, produced an average of 1,750 megawatts (MW) per day. More than 70% of transmission capacity was over 20 years old and not routinely maintained, leaving the power grid fragile and overstretched. Starting in 1999 the GON embarked on a two-track strategy of government investment to expand and rehabilitate power infrastructure, and to deregulate the power sector to encourage private investment. While Nigeria doubled functional power generation capacity between 1999 and 2007, gains were achieved by rehabilitating old plants.

[1](#)4. (U) From 2002 to 2004 GON officials expected that private investment would fund domestic power sector expansion and reduced government investment. By 2005, lukewarm private investment in the sector coupled with declining performance led the GON to increase

its role in restoring the power system using the excess crude fund under the \$9.7 billion National Independent Power Project (NIPP). The NIPP included generation, transmission, distribution, and gas supply projects across Nigeria. The plan foresees privatizing the majority of these assets at a later date to recoup their development costs.

Progress But Problems Remain

15. (SBU) Since 2005 the GON spent \$4 billion on power infrastructure expansion and 17 new power station projects ongoing in locations across Nigeria - including seven in the Niger Delta - making the NIPP the largest power project in Africa. Plans for several Independent Power Plant (IPP) joint ventures with international oil companies (IOCs) continue. Makoju estimated Nigerian suppressed electricity demand was between 10,000 and 20,000 MW. Nigeria was working with the World Bank on a study to assess Nigeria's suppressed demand, needed to expand cheaper grid-supplied power and the gas network to industry in Lagos and Port Harcourt to encourage privately-generator users to join the public power grid.

16. (SBU) Despite progress, NIPP implementation was delayed and no NIPP plant had yet been commissioned. Securing adequate and reliable gas supplies was a hurdle for capacity expansion. As of July, Nigeria's total gas requirement for power generation was 920 million standard cubic feet per day (mmscfd) but supply was 400 mmscfd. The Niger Delta security situation had reduced gas supplies available to power plants, affecting power generation. As of July 2007, Nigeria's power sector exhibits a high incidence of load shedding from insufficient generation due to restricted or interrupted gas supplies to gas-fired power plants, and heavy water reservoir drawdown at hydropower stations from drought and overrunning of hydro plants. Makoju cited the vandalism in February 2006 of the Escravos-Lagos Gas Pipeline (ELP), a major line for the

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Egbin power plant. However, as of July the local community in the area of the rupture had granted repair crews access to the pipeline and he expected the ELP to be operational by October. Makoju contended attitudes in the Niger Delta had changed and attacks on energy infrastructure would decrease, due to improvements in state and local government accountability. He pointed to the militants' willingness to come to the bargaining table over the last ten months as positive steps, despite increased hostage taking.

Necessity for New Gas Regime

17. (SBU) Makoju underscored that the GON would need a gas regulatory and pricing regime that provided incentives for international oil companies to invest in the domestic gas infrastructure. A/S Harbert shared similar concerns of power generation shortfalls in the U.S. Makoju was optimistic that efforts to form a 25-year power development plan would be successful because it was necessary to depoliticize Nigeria's electricity tariff.

Electricity Pricing Endangers Power Development

18. (SBU) Makoju indicated the Nigerian Electric Power Authority's (NEPA) successor companies still relied on GON subsidies for financial viability, but stressed they must achieve financial autonomy and independence to survive in the long run. The GON electricity tariff structure reinforced the reliance on subsidies and put undue stress on the budget, exacerbated by Power Purchase Agreements (PPAs) with Agip and AES Independent Power Plants (IPPs). The IPPs paid world prices for feedstock gas, and the PPAs obligated the GON to pay world prices for the electricity IPPs generated. Makoju lamented the GON was hemorrhaging cash to meet its PPA obligations, severely depleting power sector working

capital. This contributed to an \$11.7 million monthly power sector operating loss and which led to under funding supplies and maintenance at government-owned plants. Further, the persistent threat of GON default on PPA's led IPPs to demand securitization for GON payments and could deter future IPP investment. If the GON privatized its gas-fired power plants, projected total monthly PPA obligations would reach \$51 million. Privatization thus might "do more harm than good" if the electricity tariff was not adjusted to reflect costs. He advocated phasing out power subsidies gradually. A/S Harbert agreed this was not sustainable and advocated moving to a system where power development costs were passed on to the consumer.

Diversifying the Energy Mix

¶9. (SBU) As part of its 25-year energy plan, the GON plans to diversify its energy mix by exploring several potential hydropower projects that together could add 6,000 MW of power generation capacity. The GON was interested in coal-fired power plants, biodiesel, wind, and solar power for off-grid generation. These off-grid initiatives would work in conjunction with the GON's rural electrification program, but would require government subsidies and international aid assistance in the absence of private investment. A/S Harbert offered the U.S. government's experience with regulating renewable energy. The geographic peculiarities of U.S. transmission and distribution systems meant renewable energy standards were best left to state governments, while federal tax credits could make renewable energies more cost competitive. Renewable power storage and transmission problems made their widespread use difficult, but the U.S. was researching high-voltage transmission and electricity storage. Makoju said these solutions would be welcome in Nigeria, as they would free up gas supplies to seek higher returns in the export market.

West African Power Pool (WAPP)

¶10. (SBU) Parallel to his calls for Nigeria to develop a long-term energy plan, Makoju said Nigeria should be planning power supplies

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for the entire West Africa region. Providing power to the WAPP had little impact on Nigeria's domestic supply since the power needs of the neighbors were small by comparison - 14 MW to Niger and 80 MW to Benin and Togo daily. The WAPP served Nigeria's strategic interests by helping it to build goodwill with its neighbors and deterring Niger from building dams on the River Niger upstream of Nigeria.

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